

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

The enclosed report prepared by Mountjoy and Bressler, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2004.

We engaged Mountjoy and Bressler, LLP to perform the audit of this statement. We worked closely with the firm during our report review process; Mountjoy and Bressler, LLP evaluated the Rockcastle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROCKCASTLE COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

Mountjoy and Bressler, LLP has completed the Rockcastle County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$325,878 from the prior year, resulting in excess fees of \$331,362 as of December 31, 2004. Revenues increased by \$218,029 from the prior year and expenditures decreased by \$107,849.

Report Comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Maintain Accurate Records
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Rockcastle County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2005 on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Maintain Accurate Records
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Rockcastle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy and Bressler, LLP

Audit fieldwork completed -
September 21, 2005

ROCKCASTLE COUNTY
 DARRELL DOAN, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State - Kentucky Law Enforcement Foundation Program Fund	\$	26,239
House Bill 452		63,398
House Bill 413		753
State Fees For Services:		
Cabinet For Human Resources		11,900
Circuit Court Clerk:		
Fines and Fees Collected		4,048
Fiscal Court-Sheriff's Salary		61,860
County Clerk - Delinquent Taxes		1,698
Commission On Taxes Collected		158,001
Fees Collected For Services:		
Serving Papers	\$	15,264
Carry Concealed Deadly Weapons	6,824	
Auto Inspections	3,263	
Accident/Police Reports	700	
Arrest Fees	453	
Miscellaneous	325	
		26,829
Other:		
HIDA	24,348	
Operation UNITE Payroll Reimbursement	21,933	
City Police Reimbursement	8,500	
Kentucky Body Armor Grant	5,306	
Transports	4,659	
Reimbursement for Bailiff	3,413	
Election Commission	921	
Tax Refund	855	

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2004
(Continued)

Revenues (Continued):

Other (Continued):

Reimbursement for Cell Phone Package	\$	801	
Refunds		721	
Reimbursement for Uniforms		617	
Miscellaneous		<u>741</u>	\$ 72,815

Interest Earned			<u>59</u>
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Total Revenues			427,600
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Expenditures

Contracted Services-

Advertising	264
Vehicle Maintenance and Repairs	5,661

Materials and Supplies-

Office Materials and Supplies	941
Uniforms	631

Auto Expense-

Gasoline	11,058
Maintenance and Repairs	834

Other Charges-

Accounting	2,850
Telephone	2,132
Carrying Concealed Deadly Weapons	1,780
Transfer to Tax Account	1,020
Travel	1,000
Radio	971
Uniforms	631
Training	547
Internet	295
Miscellaneous	<u>290</u>

30,905

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
 DARRELL DOAN, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued):

Capital Outlay-	
Vehicles	\$ 4,000
Total Expenditures	\$ 34,905
Less: Disallowed Expenditures	
Unsupported Travel Expense	(527)
Total Allowable Expenditures	\$ 34,378
Net Revenues	\$ 393,222
Less: Statutory Maximum	61,860
Excess Fees Due County for 2004	\$ 331,362
Payments to Fiscal Court	330,835
Balance Due Fiscal Court at Completion of Audit	\$ 527

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank	\$ 5,921
Deposits in Transit	177
Receivables	<u>8,673</u>
Total Assets	<u>\$ 14,771</u>

Liabilities

Paid Obligations:

Outstanding Liabilities	\$ 12,529
Outstanding Checks	<u>2,242</u>

Total Paid Obligations	<u>\$ 14,771</u>
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Unpaid Obligations:

Rockcastle County- Additional Excess Fees - 2004	<u>527</u>
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Total Liabilities	<u>\$ 15,298</u>
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Total Fund Deficit as of December 31, 2004	<u><u>\$ (527)</u></u>
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COMMENTS AND RECOMMENDATIONS

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Eliminate Deficit In His Official Fee Account

The Sheriff has a deficit of \$527 in his fee account as of December 31, 2004. This deficit is the result of a disallowed expenditure made by the Sheriff during the calendar year 2004. The disallowed expenditure should be considered as additional excess fees due the county. Technical Audit Bulletin 93-001, Section 3 lists thirteen categories of expenditures that are not allowable. This includes expenditures without proper and accurate documentation. Our testing procedures indicate that the Sheriff's expenditure could not be supported by proper and accurate documentation. We recommend the Sheriff eliminate the deficit by depositing personal funds of \$527 into his official fee account, which should then be paid over to the county as additional excess fees.

Sheriff's Response: None.

The Sheriff Should Maintain Accurate Records

The Sheriff's office did not comply with the Uniform System of Accounts as adopted under KRS 68.210. The Sheriff did not maintain accurate records for the Fee account during calendar year 2004. The Uniform System of Accounts requires accurate recording of receipts by source and expenditures by payee.

We recommend the Sheriff comply with KRS 68.210 by accurately recording and properly classifying receipts and expenditures on a daily basis. Monthly receipt and expenditure ledgers should be reconciled to the daily check out sheets and the daily deposits. Bank account statements should then be reconciled to the daily deposits and daily check out sheets, as well as be performed by a person other than the one who has signature authority or makes deposits in the official accounts.

Sheriff's Response: None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of an adequate segregation of duties. Therefore, Mountjoy and Bressler, LLP has judged the lack of an adequate segregation of duties as a reportable condition and a material weakness of the Rockcastle County Sheriff.

ROCKCASTLE COUNTY
DARRELL DOAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued):

Because of the limitations of the Sheriff's office, compensating controls may offset a proper segregation of duties. Compensating controls, would require the Sheriff's direct supervision over receipts and disbursements and includes but, is not limited to the following:

- (1) Surprise cash counts by the Sheriff.
- (2) Requiring dual signatures on checks with one being that of the Sheriff.
- (3) Requiring employees to be cross-trained.

We recommend that these controls be performed in order to offset a lack of segregation of duties. Documentation of these controls should be maintained for the auditor in order to verify their existence.

Sheriff's Response: None.

PRIOR YEAR:

- The Sheriff Should Eliminate Deficit In His Official Fee Account
This was corrected for the prior year.
- The Sheriff Should Submit An Annual Settlement Of Excess Fees
This was corrected.
- The Sheriff Did Not Publish His Annual Financial Statement
This was corrected.
- The Sheriff Should Maintain Accurate Records
This was not corrected.
- The Sheriff Should Avoid Paying For Interest From His Official Fee Account
This was corrected.
- The Sheriff's Office Lacks Adequate Segregation Of Duties
This was not corrected.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Darrell Doan, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rockcastle County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 21, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Eliminate Deficit In His Official Fee Account
- The Sheriff Should Maintain Accurate Records

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Mountjoy & Bressler, LLP.

Mountjoy and Bressler, LLP

Audit fieldwork completed -
September 21, 2005

